

# WebMemo



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## Water Quality Bill Marred by High Costs and Davis-Bacon Handouts

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The Water Quality Financing Act (WQFA, H.R. 720) of 2007, recently passed by the House, strikes a double blow against taxpayers. First, it would give more subsidized loans to local governments to build sewage treatment plants and require them to apply Davis-Bacon wage provisions to all such projects. Davis-Bacon wages shield unions from competition and thus raise costs to taxpayers. Forcing communities to pay Davis-Bacon rates would make it more difficult for local governments to build new water treatment facilities. Second, the Act would authorize \$14 billion in new spending over the next four years, piling up more debt as America faces a looming entitlement crisis. For taxpayers' sake, Congress should remove these provisions.

**Current System.** The Clean Water Act created the Clean State Water Revolving Fund to finance the construction of municipal water treatment infrastructure. Both the federal and state governments initially put billions of dollars into the fund. Local governments borrow from the fund at subsidized interest rates to build water treatment facilities. Local governments repay the loans with interest, and this provides the money for future loans. The Water Quality Financing Act, recently passed by the House, would add billions of dollars to the state revolving fund and require that any project built with loans from the fund pay Davis-Bacon wages.

**Davis-Bacon Limits Competition.** Congress passed the Davis-Bacon Act in 1931 to protect unionized northern white construction workers from competition from nonunion southern blacks

who were moving north to work on construction projects.<sup>1</sup> It serves a similar purpose today, shielding unionized construction firms from nonunion competition. Davis-Bacon requires any federal construction project to pay workers a federally defined "prevailing wage." The prevailing wage usually amounts to the union wage, which is often well above the market rate. This requirement means that union members can charge above-market wages on federal projects without losing bids to nonunion firms because the nonunion firms must pay inflated union wages.

Unsurprisingly, organized labor strongly supports the Davis-Bacon Act because it protects union members from competition and requires the government to pay their above-market wages. Table 1 shows Davis-Bacon wages and average market wages in several U.S. cities. Davis-Bacon rates are typically 15 to 40 percent higher than market wages and, in some cases, are more than double the competitive wage.

Taxpayers ultimately foot the bill for these inflated wages. Limiting competition means the government pays more for construction projects. The Government Accountability Office found that Davis-Bacon increases federal contractors' costs by over a billion dollars per year.<sup>2</sup>

This paper, in its entirety, can be found at:  
[www.heritage.org/research/labor/wm1396.cfm](http://www.heritage.org/research/labor/wm1396.cfm)

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Table I

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### Davis-Bacon Wages in Selected Cities

	Detroit	Pittsburgh	Philadelphia	Houston	New York	Washington, DC
<b>Carpenter</b>						
Davis-Bacon	n/a	\$25.64	\$32.65-33.75	\$19.50	\$34.47-40.25	\$23.37
Market Rate	n/a	\$18.46	\$20.64	\$12.77	\$23.94	\$20.20
<b>Electrician</b>						
Davis-Bacon	\$33.55	\$30.08	\$31.09-41.91	\$23.05	\$43.00	\$32.45
Market Rate	\$31.92	\$19.16	\$18.84	\$22.76	\$35.63-41.47	\$25.37-26.97
<b>Plumber</b>						
Davis-Bacon	\$31.03	\$30.15	\$38.93	\$24.46-25.43	\$45.51	\$31.52
Market Rate	\$23.32	\$22.05	\$25.09	\$16.55	\$32.27	\$21.43
<b>Laborer</b>						
Davis-Bacon	\$24.68-25.93	\$19.32-20.07	n/a	\$9.29-12.90	\$28.86	\$11.83-18.41
Market Rate	\$18.79	\$13.24	n/a	\$11.53	\$23.80	\$11.89

**Note:** Market rates are from the period November 2005-April 2006, and Davis-Bacon Rates are from February or March 2007.

**Sources:** U.S. Department of Labor, Bureau of Labor Statistics, National Compensation Survey, at [www.bls.gov/ncs/ocs/compub.htm](http://www.bls.gov/ncs/ocs/compub.htm), and U.S. Government Printing Office, Davis-Bacon Wage Determinations by State, at [www.gpo.gov/davisbacon/allstates.html](http://www.gpo.gov/davisbacon/allstates.html).

**Expansion of a Special-Interest Handout.** The Water Quality Financing Act requires any local government that borrows from the state revolving fund to pay artificially inflated Davis-Bacon wages. This massively expands the reach of the Davis-Bacon Act. Currently Davis-Bacon applies only to federally funded construction projects. State and local governments, however, contribute to the state revolving fund. Thus water treatment projects funded entirely with state and local contributions would face Davis-Bacon restrictions.

This would represent a massive expansion of a special-interest handout to union members at the direct expense of local taxpayers. Union members would enjoy higher wages than they could earn if the government allowed competition, but taxpayers would have to pay higher taxes to cover both increased project expenses and increased interest payments on larger loans. This would probably come in the form of higher property taxes.

Redistributing wealth to union members does not bother organized labor, but policymakers should avoid this special interest handout. Union members already earn above average wages. As a matter of fairness, the government should not make all taxpayers, including those with below average earnings, pay higher taxes to protect relatively wealthy union members from competition.

**Less Investment in Clean Water.** Perversely, the WQFA would reduce local investments in clean water because it would increase the cost for local governments to invest in new water treatment infrastructure. The bill provides more money for loans to the state revolving fund but would make every project substantially more expensive for local governments. Many communities could find that they cannot afford building a treatment plant at Davis-Bacon rates.

The bill would hit small communities especially hard because of the economies of scale in water treatment. It costs more per person to clean the sew-

1. David Bernstein, "The Davis-Bacon Act: Let's Bring Jim Crow to an End," The Cato Institute, *Briefing Paper* No. 17, January 18, 1993, at [www.cato.org/pubs/briefs/bp-017.html](http://www.cato.org/pubs/briefs/bp-017.html).
2. General Accounting Office, "Budget Issues: Budgetary Implications of Selected GAO Work for Fiscal Year 2000," at [www.abc.org/userassets/Documents/Government%20Affairs/PrevailingWageLawStudies/GAObudget2000.pdf](http://www.abc.org/userassets/Documents/Government%20Affairs/PrevailingWageLawStudies/GAObudget2000.pdf).

age of a 1,000-person town than the sewage of a big city. Small towns also typically have smaller and less diversified tax bases. On a per-person basis, small towns would see the greatest increase in costs from the Davis-Bacon requirements and have the least ability to pay for them.

**Unaffordable Spending Spree.** The WQFA also increases federal spending at a time of tight budgets. Federal spending has soared in recent years, and taxpayers cannot afford still more. Since 2001, federal spending has risen 23 percent after inflation, and the government now spends \$23,300 per household.<sup>3</sup> The WQFA would authorize \$14 billion in new spending between 2008 and 2011, a 250 percent increase above current spending levels.<sup>4</sup> With the baby boomers about to retire and to begin collecting both Social Security and Medicare, this expenditure would be irresponsible.

**Conclusion.** Congress is justifiably concerned about water quality, but the Water Quality Financing Act needs significant reform. The Act hits taxpayers twice. It authorizes a tripling of the amount put into the state revolving fund and extends Davis-Bacon limits on competition to all projects built with loans from the fund. This special-interest handout would redistribute income from taxpayers to unionized construction workers, while making it more expensive for communities to build new water treatment plants. Unions understandably support laws that block other workers from competing with them, but that does not make blocking competition good public policy.

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3. Brian M. Riedl, "Federal Spending by the Numbers," Heritage Foundation *WebMemo* No. 1390, March 8, 2007, at [www.heritage.org/research/budget/wm1390.cfm](http://www.heritage.org/research/budget/wm1390.cfm).

4. Office of Management and Budget, "Statement of Administration Policy: H.R. 720," March 8, 2007, at [www.whitehouse.gov/omb/legislative/sap/110-1/hr720sap-h.pdf](http://www.whitehouse.gov/omb/legislative/sap/110-1/hr720sap-h.pdf).